

Message Text

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ACTION ARA-10

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FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 6440

INFO AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

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ROCAP

E.O. 11652: N/A

SUBJECT: GSP AND CENTRAL AMERICAN INTEGRATION

REF: (A) STATE 66367; (B) STATE 106679 (5/22/74) (C) CAPTO

CIRCULAR A-01 JAN 31, 1975

1. UNDER SECTION 502 (A) (3) OF THE TRADE ACT THE PRESIDENT MAY PROVIDE THAT MEMBER COUNTRIES OF A FREE TRADE AREA OR CUSTOMS UNION WHICH ARE ELIGIBLE FOR GSP SHALL BE TREATED AS A SINGLE COUNTRY FOR GSP PURPOSES. UNDER SECTION 503 (B) (2), ELIGIBLE MEMBER COUNTRIES OF A REGIONAL GROUPING TREATED AS ONE COUNTRY HAVE THE OPTION OF CHOOSING BETWEEN MEETING A LOWER BENEFICIARY COUNTRY "VALUE ADDED CONTENT" REQUIREMENT (35 PERCENT) AS INDIVIDUAL COUNTRIES OR A HIGHER REQUIREMENT (50 PERCENT) AS A GROUP. AT THE SAME TIME, HOWEVER, THE "COMPETITIVE NEED" LIMITATIONS OF SECTION 504 (C) APPLY TO THE EXPORTS OF THE GROUP AS A WHOLE RATHER THAN TO EXPORTS OF THE INDIVIDUAL COUNTRIES COMPRISING THAT GROUP.

2. OUR OBSERVATIONS BOTH AT THE RECENT SIECA-OAS SEMINAR ON TRADE POLICY (REF A) AND AT THE REGIONAL CONSULTATION HELD APRIL

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30-MAY 1, 1974 AT MANAGUA WITH AMBASSADOR EBERLE (REF B, PARA 5 H)

INDICATE THAT THE CENTRAL AMERICAN COUNTRIES ATTACH CONSIDERABLE IMPORTANCE TO A PROVISION FOR CUMULATIVE ORIGIN WHICH WOULD PROVIDE AN EFFECTIVE STIMULUS FOR CENTRAL AMERICAN REGIONAL INTEGRATION, A CONCEPT THE U.S. HAS LONG SUPPORTED. HOWEVER, BECAUSE THE FIVE CENTRAL AMERICAN COUNTRIES ARE HIGHLY UNLIKELY TO OPT FOR TREATMENT AS ONE COUNTRY IF IT MEANS BOTH A MORE STRINGENT VALUE-ADDED REQUIREMENT AND MORE RAPID TRIGGERING OF THE COMPETITIVE NEED CEILINGS, THIS OPTION IS NOT VERY MEANINGFUL.

3. INFORMATION AVAILABLE TO ROCAP INDICATES THAT THE AVERAGE VALUE-ADDEZ TO ALL CENTRAL AMERICAN INDUSTRIAL PRODUCTS IS ABOUT 35-40 PER CENT. (REF C, TABLE L). THUS THE RANGE OF PRODUCSTS LIKELY TO MEET THE MIMUMINIMUM 35 PERCENT REQUIREMENT ESTABLISHED FOR INDIVIDUAL COUNTRIES IN THE CURRENT LEGISLATION WOULD APPEAR TO BE LIMITED. FURTHERMORE, HOWEVER, WE ARE INFORMED BY SIECA THAT THERE IS CURRENTLY NO REPEAT NO DATA AVAILABLE ON WHICH TO BASE CALUCULATIONS OF THE PRESENT DIVISION OF VALUE ADDED AMONG CACM MEMBER COUNTRIES ON PRODUCTS EXPORTED TO OUTSIDE THE REGION. IT IS THEREFORE IMPOSSIBLE FOR SIECA TO MAKE A RECOMMENDATION TO CACM MEMBERS AS TO WHETHER CUMULATIVE TREATMENT FOR U.S. GSP PURPOSES WOULD CONSTITUTE A NET BENEFIT FOR THEM.

4. EVEN IF A METHODOLOGY IS EVENTUALLY DEVELOPED TO DEFINE CUMULATIVE VALUE ADDED, EXTREMELY COMPLICATED RESEARCH AND INTRAREGIONAL NEGOTIATIONS ARE FORESEEN, MAKING A SUCCESSFUL EFFORT TO FORECAST THE EXTENT OF THE POTENTIAL BENEFIST WHICH MIGHT ACCRUE TO THE SEVERAL CACM MEMBER COUNTRIES ON ONE OR MORE PRODUCTS WHICH MIGHT BENEFIT FROM CUMULATIVE TREATMENT MOST UNLIKELY.

5. IN ORDER TO MEET MORE EFFECTIVELY THE OBJECTIVE OF MEANINGFUL U.S. SUPPORT FOR REGIONAL INTEGRATION (WHICH OBVIOUSLY MOTIVATED THE INCLUSION OF SPECIAL TREATMENT FOR REGIONAL LDC GROUPINGS IN THE PRESENT LANGUAGE OF THE TRA) CONSIDERATION MIGHT BE GIVEN TO THE FOLLOWING CHANGES:

A. ELIMINATE THE MORE STRINGENT VALUE ADDED REQUIREMENT FOR REGIONAL GROUPS, AND

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B. RAISE THE COMPETITIVE NEED CEILINGS FOR REGIONAL GROUPS COMPRISING AT LEAST FIVE MEMBERS TO \$100 MILLION. TRAGEN.
ALSO PASSED INFO TO USAD/GUATEMALA.
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